

**Assistant Secretary for Financial Institutions**  
**Emil W. Henry, Jr.**  
**May 2006 Quarterly Refunding Statement**

We are offering \$34.0 billion of Treasury securities to refund approximately \$59.9 billion of privately held securities maturing or called on May 15 and to pay down approximately \$25.9 billion. The securities are:

- A new 3-year note in the amount of \$21.0 billion, maturing May 15, 2009;
- A new 10-year note in the amount of \$13.0 billion, maturing May 15, 2016;

These securities will be auctioned on a yield basis at 1:00 PM EDT on Tuesday, May 9 and Thursday, May 11, respectively. Both notes will settle on Monday, May 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the June 10-year note reopening, and the July 10-year TIPS and 20-year TIPS reopening. Treasury also is likely to issue cash management bills in early June.

**Treasury Securities Lender of Last Resort (SLLR) Facility White Paper**

Since last summer, Treasury has been studying the idea of creating a securities lending facility. On April 26, we released a white paper that identifies some important policy considerations and outlines one of many possible structures for such a facility. The paper, "Consideration of a Proposed Securities Lending Facility," is available on the Treasury website at [http://www.treas.gov/offices/domestic-finance/debt-management/securities-lending-facility\\_04262006.pdf](http://www.treas.gov/offices/domestic-finance/debt-management/securities-lending-facility_04262006.pdf). We hope the publication of the white paper will stimulate more detailed discussion and feedback on the basic question of whether a Securities Lender of Last Resort facility should be established and, if so, the precise manner in which it should be structured.

**Thirty-Year Bond**

Treasury is continuing to examine how our calendar can best accommodate both the February-August and May-November coupon cycles. We expect to announce any change to the issuance calendar for the 30-year bond on August 2, 2006. No calendar change would occur before calendar year 2007.

The 30-year bond auction in August will be a reopening regardless of price movements in the bond. The IRS original issue discount (OID) rules provide that additional Treasury securities have the same terms as the original Treasury securities if they are issued not more than one year after the original Treasury securities were first issued to the public.

**Other Policy Matters Under Consideration**

As part of our efforts to increase participation in Treasury securities auctions and to achieve the lowest possible borrowing costs, we are considering the following potential changes to the auction process.

**Changes to Restrictions and Reporting on Bidding Procedures**

We are considering whether changes to the Treasury auction environment, including the adoption of uniform-price auctions for all marketable Treasury securities in November 1998, has diminished the need for the following rules that now may impose unnecessary burdens on some auction participants.

Proposed Change 1: Current rules prohibit a bidder from submitting bids both noncompetitively and competitively in the same Treasury auction. From time to time, noncompetitive awards have been rejected because participants were unaware of an affiliate's auction activities. While this rule was necessary in a multiple-price auction environment, it does not serve the same purpose in a single-price environment. Rejecting these bids causes Treasury's borrowing costs to rise at the margin. We are considering allowing entities to bid both competitively and noncompetitively in Treasury marketable securities auctions while maintaining the \$5 million limit on noncompetitive bids.

Proposed Change 2: Treasury is also contemplating changes to the regulation requiring any customer awarded a par amount of \$500 million or more in an auction to send Treasury a written confirmation of its bid, and a statement indicating whether it had a reportable net long position. Put in place in 1993, the reporting threshold has never been changed despite changes in average auction sizes and transactions volumes. Given that auction sizes vary by security and have risen over time, we are considering raising the customer confirmation reporting requirement threshold amount.

### **Early Announcement of Non-Competitive Awards**

As part of our efforts to improve transparency and auction performance, we are considering public reporting of noncompetitive awards in Treasury auctions prior to the close of competitive bidding.

Please send comments and suggestions on these subjects or others relating to Treasury debt management to [debt.management@do.treas.gov](mailto:debt.management@do.treas.gov).

The next quarterly refunding announcement will take place on Wednesday, August 2, 2006.